

OPEN MEETING ITEM



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COMMISSIONERS
KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

ORIGINAL



ARIZONA CORPORATION COMMISSION

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DATE: OCTOBER 5, 2010

DOCKET NO.: SW-04305A-09-0291

DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

CORONADO UTILITIES, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

OCTOBER 14, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

OCTOBER 19, 2010 and OCTOBER 20, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

OCT 5 2010

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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 KRISTIN K. MAYES - Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

7 IN THE MATTER OF THE APPLICATION OF
8 CORONADO UTILITIES, INC. FOR A
9 DETERMINATION OF THE FAIR VALUE OF ITS
10 UTILITY PLANT AND PROPERTY AND FOR
11 INCREASES IN ITS WASTEWATER RATES AND
12 CHARGES FOR UTILITY SERVICE THEREON.

DOCKET NO. SW-04305A-09-0291

DECISION NO. _____

13 **OPINION AND ORDER**

11 DATE OF HEARING:

May 5, 2010

12 PLACE OF HEARING:

Tucson, Arizona

13 DATE OF PUBLIC COMMENT:

March 23, 2010

14 PLACE OF PUBLIC COMMENT:

Tucson, Arizona

15 ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

16 APPEARANCES:

Mr. Jay Shapiro, FENNEMORE CRAIG,
PC, on behalf of Coronado Utilities, Inc.;
and

Ms. Ayesha Vohra, Staff Attorney, Legal
Division, on behalf of the Utilities
Division on behalf of the Arizona
Corporation Commission.

21 **BY THE COMMISSION:**

22 **I. INTRODUCTION**

23 Coronado Utilities, Inc. ("Coronado" or the "Company") is a class B public utility that
24 provides wastewater service to approximately 1240 residential customers in the unincorporated
25 community of San Manuel in Pinal County. The Company's customer base is predominantly
26 residential, but also includes 60 commercial customers, 4 schools and a trailer park. Coronado also
27 provides reclaimed water to the local golf course.

28 On June 3, 2009, Coronado filed an application for a rate increase based on a twelve month

1 test year ending December 31, 2008. The Company's existing rates were approved in Decision No.
2 68608 (March 23, 2006) which granted Coronado its Certificate of Convenience and Necessity
3 ("CC&N") to serve the San Manuel community. This is the Company's first rate case since receiving
4 its CC&N. In Decision No. 68608, the Commission ordered Coronado to file a rate case 24 months
5 after the implementation of Phase 2 of the rates approved in that proceeding.¹

6 Prior to Coronado receiving its CC&N, BHP Copper Company ("BHP") provided wastewater
7 service to the community incidental to its operation of a copper mine in the area. Prior to Coronado
8 constructing a new treatment plant, wastewater was sent to an old lagoon system that had been in
9 operation for 50 years. The old treatment facility could not comply with current Arizona Department
10 of Environmental Quality ("ADEQ") requirements, which required the construction of a new
11 treatment plant. Coronado replaced the antiquated system with a new 350,000 gpd wastewater
12 treatment plant that uses modified extended aeration technology.²

13 In the test year, the Company had an adjusted operating income of \$153,839, on total
14 revenues of \$868,903, for a 4.35 percent rate of return on a fair value rate base ("FVRB") of
15 \$3,531,742.

16 The Company seeks a rate increase of \$169,696, or 19.5 percent, for total revenues of
17 \$1,038,599.³ The Company is proposing adjusted operating expenses of \$778,663, which would
18 yield operating income of \$259,936, a 7.36 percent rate of return on a FVRB of \$3,531,742. Under
19 the Company's requested increase, residential customers would experience a monthly increase of
20 \$9.16, or 19.7 percent, from \$46.50 to \$55.66

21 The Commission's Utilities Division ("Staff") recommended total revenues of \$1,010,127, an
22 increase of \$141,223, or 16.25 percent over test year revenues.⁴ Staff's recommended operating
23 expenses of \$750,191, would yield operating income of \$259,936, a 7.36 percent rate of return on a
24 FVRB of \$3,531,742. Staff's recommended rates would result in residential customers experiencing

25 ¹ Decision No. 68608 at 31. The Commission ordered that the new rates be phased in over three stages. The first phase
26 was effective the first of the month following Coronado's acquisition of the plant from BHP; the 2nd phase was effective
27 after the new plant was placed in service, and the 3rd phase was effective no sooner than the 13th month after the
implementation of the phase 2 rates.

28 ² Ex A-1, Williamson Direct at 3.

³ Coronado Final Schedules at C-1.

⁴ Staff's Final Schedules at GTM-7.

1 a monthly increase of \$8.10, or 17.42 percent, from \$46.50 to \$54.60.⁵

2 The parties agree on a weighted cost of capital of 7.36 percent, although they do not agree on
3 the cost of capital methodology or underlying components.

4 During the hearing in this matter the parties' main areas of dispute involved the calculation of
5 the Bad Debt Expense and the Company's proposed low income tariff and proposed reconnection
6 tariff for customers who are disconnected due to delinquent payments and who seek to reconnect at
7 the same location. Subsequent to the end of the hearing, the parties continued to negotiate a joint
8 proposed Alternative Rates of Wastewater ("ARW") Tariff (also referred to as the Low Income
9 Tariff).

10 The Commission received many customer comments in this matter. Customers are
11 passionately concerned about the proposed increase, and adamantly oppose the requested increase,
12 especially in light of the economic conditions in the community. They urged the Commission to
13 investigate operating expenses and were concerned about overlapping ownership between the utility
14 and the manufacturer of the treatment facilities.

15 Coronado contracts with Pivotal Utility Management to manage its operations.⁶ As part of its
16 regulatory audit, Staff examined and tested Coronado's books and records and supporting
17 documentation and verified that the Company was utilizing appropriate accounting principles in
18 conformance with National Association of Regulatory Utility Commissioners ("NARUC") Uniform
19 System of Accounts.⁷ Staff's engineering witness visited the plant and confirmed that ADEQ has
20 determined that the system is in compliance with its rules and regulations. Staff has no "used and
21 useful" or operational concerns about the system.⁸

22 II. RATE BASE

23 As filed, Coronado proposed an Original Cost Rate Base ("OCRB") of \$3,536,648. The
24 Company did not request a Reconstruction Cost New Rate Base, and thus, its FVRB is the same as its
25 OCRB.

26 _____
27 ⁵ Staff's Final Revised Schedules GTM 15 filed June 3, 2010.

28 ⁶ Transcript of the May 5, 2010 Hearing ("Tr.") at 88.

⁷ Tr. at 179, Ex S-2, McMurry Direct at 2.

⁸ Ex S-2 Stukov Direct; Tr. at 140.

Staff recommended adjustments to rate base that would increase Accumulated Depreciation by \$7,225, and increase the Deferred Income Tax Asset by \$2,319. Staff's adjustments had the net effect of lowering OCRB by \$4,906, to \$3,531,742.⁹

The Company accepted Staff's adjustments to rate base.

The record in this proceeding supports the parties' final positions on FVRB. Consequently, for the purposes of this proceeding, we adopt a FVRB for Coronado of \$3,531,742.

III. REVENUE AND EXPENSES

A. Revenue

The Company reported test year revenues of \$883,530.¹⁰ Staff adjusted test year revenues by \$14,627, to \$868,903 to reflect the end of the test year customer count. In the test year, the Company lost a major customer when the San Miguel Highland Mobile Home Park closed.¹¹ The Company originally thought the loss of this customer would be temporary, but with the passage of time, and state of the economy, has accepted that it is unlikely the park will reopen.¹² Consequently, the parties agree on adjusted test year revenues of \$868,903. The evidence supports their positions.

B. Expenses

The major dispute involving test year expenses in this proceeding was Staff's recommendation to normalize the Company's Bad Debt Expense.

Coronado proposed to include its actual test year Bad Debt Expense of \$46,313 in Operating Expenses. The Company asserts that because the test year is presumed to be normal, any adjustments must be based on known and measurable changes and be shown by the evidence to be necessary and warranted.¹³ In 2009, the Company's actual Bad Debt Expense was approximately \$58,000. Because the 2009 Expense was known and measurable, the Company believes that it could have requested a pro forma adjustment to reflect the 2009 actual Bad Debt Expense.

Staff notes that Coronado has a Bad Debt Expense that is many times higher (close to 5

⁹ Ex S-3 McMurry Surrebuttal at 7, Schedule GTM- 4, -5, -6.

¹⁰ Coronado Final Schedules at C-1, Staff's Final Schedules at GTM-7.

¹¹ Staff Final Schedule at C-2, page 4.

¹² Ex A-6, Bourassa Rebuttal at 7.

¹³ Decision No. 71308 (October 21, 2009) at 22-23 (Chaparral City Water Co. rate case)

1 percent of test year revenue) than other Arizona utilities (around .25 of 1 percent).¹⁴ Staff asserts
2 that the Bad Debt Expense has fluctuated widely, from \$3,483 in 2006, to \$5,500 in 2007, and to
3 \$46,313 in 2008, the test year. Thus, Staff recommends normalizing the Bad Debt Expense by
4 averaging the actual Bad Debt Expense for 2006, 2007 and 2008, and recommends a Bad Debt
5 Expense of \$18,432. Staff asserts that normalization is a recognized ratemaking principle that the
6 Commission uses frequently and believes that a three year normalization period is appropriate
7 because it matches the normalization period used for rate case expense. Staff believes its normalized
8 Bad Debt Expense is a more reasonable and accurate level of the Company's Bad Debt Expense
9 levels.

10 The Company argues that "normalizing," or averaging, is not a known and measureable
11 change to the test year, but rather a subjective adjustment by the analyst who first decides which
12 expenses to analyze and which years' data to use.¹⁵ The Company criticizes Staff's methodology
13 because it only looks backward and does not consider all of the known facts and circumstances.
14 Furthermore, the Company argues that Staff failed to demonstrate that rejecting the actual test year
15 expense was necessary and warranted.

16 The Company argues that if normalization is to be allowed, all facts and circumstances must
17 be considered. The Company states that because it did not own the utility for much of 2006, 2006 is
18 not representative of the Company's operation. The Company notes that since 2006, its rates
19 increased from \$48 annually to \$46.50 a month. The Company explains that it wasn't until mid-2007,
20 that the second phase of the new rates went into effect, and the Company was still trying to get a
21 grasp on its customer base due to the poor customer records it received.¹⁶ Coronado asserts that it
22 held off recording all of its Bad Debt Expense in 2007 to give its customers an opportunity to get
23 used to the new rates.¹⁷ The Company states that in 2008 it began aggressively recording Bad Debt
24 Expense and pursuing collections. The Company believes that the bad economy commencing in 2008
25 also contributed to the increased Bad Debt Expense, and questions how Staff could normalize

26
27 ¹⁴ Hearing Tr. at 183.

28 ¹⁵ Coronado Brief at 4.

¹⁶ Hearing Tr. at 59-60, 101.

¹⁷ *Id.*

1 expenses, but ignore the continued known and measurable upward trend in 2009.

2 In determining the appropriate Bad Debt Expense, we should use the best and most accurate
3 data available and attempt to determine what the expense will be during the period the new rates are
4 in effect. The evidence indicates that the Bad Debt Expense for 2006 and 2007 was understated and
5 not indicative of the reality going forward. In 2006, the Company had just acquired the system and
6 was trying to straighten up its customer records. The new rates were still being phased-in in 2008.
7 Rates that were affordable in 2006, may not have been in 2008. In the midst of increasing rates, the
8 economy suffered a significant downturn in 2008 that affected every community in Arizona. The
9 Town of San Manuel was already economically depressed due to the closing of the mine and the
10 economic situation is exacerbated by a large proportion of retirees and residents on fixed incomes.
11 The operating history of this Company is not extensive and does allow a clear determination that the
12 test year Bad Debt Expense is "normal." Thus, we find that the most reasonable manner to determine
13 an appropriate Bad Debt Expense is to average the Bad Debt Expense for 2007, 2008 and 2009. The
14 Company owned the system for the entirety of these years and they reflect the most recent known
15 Bad Debt Expense. Based on this methodology, we determine that \$36,604 is a reasonable
16 normalized Bad Debt Expense.

17 This expense level is less than the actual Bad Debt Expense for 2008, the test year, but in
18 making this determination, we take into account that we are approving a low income tariff and
19 disconnection tariff for the Company as part of this Order. One of the expected benefits of these
20 tariffs should be to keep Bad Debt Expense in check.

21 **C. Operating Income**

22 Based on the foregoing, we find that Coronado's adjusted test year revenues to be \$868,904,
23 and its adjusted test year expenses to be \$715,065, resulting in test year adjusted operating income of
24 \$153,839, a 4.35 percent rate of return on FVRB of \$3,531,742.

25 **IV. COST OF CAPITAL**

26 Coronado had a capital structure at the end of the test year that is comprised of 70.57 percent
27 long-term debt, 15.62 percent preferred stock and 13.81 percent equity. Coronado proposes a cost of
28

debt of 6.25 percent, cost of preferred stock of 6.5 percent and cost of equity of 14.0 percent.¹⁸ The Company calculated a weighted cost of equity of 7.36 percent as summarized below:

	\$ amount	% of Total	Cost/ Rate	Weighted Cost
Long Term Debt	\$2,575,000	70.5	6.25%	4.41%
Preferred Stock	570,000	15.6	6.50%	1.02%
Stockholder Equity	504,024	13.81	14.0%	1.93%
Totals	3,649,024	100.0		7.36%

At the end of the test year, Coronado had outstanding Pinal County IDA bonds of \$2,575,000. The Commission authorized Coronado to borrow \$2,650,800 in Decision No. 68608, for the construction of the treatment plant. In addition, in Decision No. 68752 (June 5, 2008), the Commission authorized the Company to issue preferred stock in the amount of \$570,000 to BHP. The preferred stock pays dividends at the rate of 6.5 percent annually, but the dividend requirement is non-cumulative.

Mr. Bourassa, the Company's cost of capital witness, determined that the Company's cost of equity falls in the range of 14.0 percent to 20.0 percent, with a midpoint range of 17.3 percent. In order to minimize the impact on ratepayers, however, Mr. Bourassa recommends a cost of equity of 14.0.¹⁹ He based his cost of equity recommendation on: 1) the results of his application of the constant growth and multi-stage growth discounted cash flow ("DCF") models and the capital asset pricing model ("CAPM") for a sample group of publicly traded utilities; 2) his review of the economic conditions expected to prevail during the period in which new rates will be in effect; 3) his judgments about risks associated with small utilities; 4) the financial risk associated with the level of debt in Coronado's capital structure; and 5) additional specific business and operational risks faced by the Company.²⁰ A Summary of Mr. Bourassa's cost of equity analysis follows:

¹⁸ Coronado Final Schedule at D-1.

¹⁹ Ex A-5 Bourassa Direct on Cost of Capital at 3.

²⁰ *Id.* at 2.

Method	Low	High	Midpoint
DCF Constant Growth Estimates	11.1%	12.6%	11.9%
Range of CAPM Estimates	10.1%	19.5%	14.8%
Ave. of DCF and CAPM midpoint estimates	10.6%	16.0%	13.3%
Financial Risk Adjustment	3.5%	3.5%	3.5%
Specific Company Risk Premium	0.5%	0.5%	0.5%
Indicated Cost of Equity	14.6%	20.0%	17.3%
Recommended Cost of Equity			14.0%

Staff did not prepare a cost of capital analysis in this case. Rather, Staff recommended adopting the Company's proposed 7.36 percent overall rate of return.²¹ Staff states that in accepting the ultimate proposed rate of return, Staff was not adopting the Company's cost of capital methodology or the underlying components used to determine the cost of equity, but was agreeing that the Company's proposed overall rate of return is comparable to that adopted by the Commission for other utilities in recent decisions.²²

Mr. Bourassa utilized the DCF and CAPM models to derive his estimates of the appropriate cost of equity for Coronado. This Commission has adopted these methodologies in other cases, although not necessarily with the specific assumptions or inputs that Mr. Bourassa utilized in this proceeding. The Company has proposed a cost of equity at the low end of its analysis, and its final recommendation does not appear to reflect the 0.5 percent specific company risk premium discussed in its testimony. The 14.0 percent cost of equity estimate does reflect a financial risk adjustment, using the Hamada equation, which this Commission has often employed, to adjust the cost of equity in order to account for the added financial risk associated with the relatively high amount of debt in Coronado's capital structure. Although Staff did not prepare a cost of equity analysis or provide testimony on the Company's analysis, Staff testified that a 10.5 percent cost of equity is more in line

²¹ Ex S-2 McMurphy Direct at 23.

²² *Id.*

with Staff's recommendations in other rate cases.²³ We find that the proposed 14.0 percent cost of equity is higher than the Commission has been approving in recent rate cases. In the recent Black Mountain Sewer Company rate case, the Commission adopted a 10.2 percent cost of equity.²⁴ We find that an unadjusted cost of equity of 10.2 percent is reasonable. Black Mountain had a capital structure with proportionately less debt than Coronado, however, and it is reasonable to adjust the cost of equity in this case to account for the additional financial risk due to Coronado's relatively high leverage. Considering the record and all of the known facts and circumstances, we approve a financial risk adjustment of 3.0 percent, which results in a cost of equity for Coronado of 13.2 percent.

Consequently, based on the foregoing, we adopt a weighted cost of capital of 7.25 percent.

	\$ amount	% of Total	Cost/ Rate	Weighted Cost
Long Term Debt	\$2,575,000	70.5	6.25%	4.41%
Preferred Stock	570,000	15.6	6.50%	1.02%
Stockholder Equity	504,024	13.81	13.2%	1.82%
Totals	3,649,024	100.0		7.25%

V. REVENUE REQUIREMENT

Based on our findings herein, we determine that Coronado is entitled to a gross revenue increase of \$152,786.

FVRB	\$3,531,742
Adjusted Operating Income	\$153,839
Required Rate of Return	7.25
Required Operating Income	\$256,051
Operating Income Deficiency	\$102,212
Gross Rev Conv. Factor	1.4948

²³ Tr. at 188.

²⁴ Decision No. 71865 (September 1, 2010).

Gross Revenue Increase

\$152,786

VI. RATES AND TARIFFS

A. Rates

Coronado currently has a flat monthly rate of \$46.00 for residential customers, and a volumetric rate for commercial customers comprised of a \$7.50 monthly charge and a rate of \$9.80 for 1,000 gallons of water. The current rates for the mobile home parks are seasonal, with a flat rate of \$31.86 in the summer and a volumetric rate in the winter comprised of a monthly charge of \$7.50 and a volumetric rate of \$5.70 per 1,000 gallons. The school rate currently has a \$7.50 monthly charge, plus \$3.10 per 1000 gallons. The effluent rate is currently \$0.15 per 1,000 gallons.

The parties have agreed that going forward the mobile home park should have a single year-round flat rate. The park is not a seasonal business, but serves primarily year-round residents. The customer requested the simplified rate design, and the parties designed their rates to be revenue neutral from this customer class.²⁵

Based on the revenue increase herein, we approve the following rates and charges:

Monthly Minimum Charge For:	
Residential	\$55.07
Commercial	\$8.93
Mobile Home Park – monthly per occupied space year-round	\$31.35
School	\$9.00
Volumetric Rates (per 1,000 gallons)	
Commercial	\$11.85
School	\$3.78
Effluent	\$0.2018

Under the rates approved herein, a residential customer on the regular tariff would see a

²⁵ Ex A-6 at 9-10.

1 monthly increase of \$8.57, or 18.4 percent, from \$46.50 to \$ 55.07.

2 **B. Low Income Tariff**

3 On June 3, 2010, Coronado filed a revised low income tariff which incorporates Staff's
4 recommendations as expressed in the Surrebuttal Testimony of Mr. McMurry. The Company's
5 proposed tariff applies to residential, single family accommodations and provides for a 15 percent
6 discount applied to the regular tariffed rate for those residential customers who meet the program
7 qualifications. The program qualifications are as follows:

- 8 1. The bill must be in the name of the program participant and the address must be
- 9 the participant's primary residence, or the participant must be a tenant receiving
- 10 sewer service for which he or she is responsible.
- 11 2. The participant may not be claimed as a dependent on another person's tax return.
- 12 3. The participant must reapply each time he or she moves residences.
- 13 4. The participant must renew the application every two years, or sooner, if
- 14 requested.
- 15 5. The participant must recertify each year by submitting a declaration attesting to
- 16 continuing eligibility.
- 17 6. The participant must notify Coronado within 30 days if he or she becomes
- 18 ineligible for the tariff.
- 19 7. The gross annual income of all persons living in the household cannot exceed the
- 20 levels set forth in the tariff.

21 The initial qualifying annual income is set at 150 percent of the 2009 federal poverty level. For
22 example, at this time, for a one person household, the maximum qualifying income is set at \$16,245,
23 for a two person household it is \$21,855, and for a four person household it is \$33,075. The tariff is
24 limited to 400 customers.

25 Staff recommends that the Company be allowed to collect its actual costs directly related to
26 administration of the low income tariff instead of the 10 percent fee initially proposed by the
27 Company. Staff believed that because the direct costs are not known at this time, allowing the actual
28 costs (as opposed to the 10 percent administration fee) is most appropriate.²⁶ As Staff's witness
noted, if the direct costs of the program are higher than 10 percent, then the Company should be
allowed to cover those costs.²⁷

A surcharge applied to non-participating residential customers will recover the program costs

²⁶ Tr. at 173.

²⁷ *Id.*

(discounts, direct costs the Company incurs and carrying charges). The Company will track all of the costs of the program in a balancing account. The surcharge will be the amount resulting from dividing the ending balance account by the number of bills issued to non-participating customers in the past 12-month tracking period. The ending balance in the balancing account should equal the beginning balance plus discounts allowed in the 12-month tracking period plus carrying charges less surcharge fees billed in the 12-month tracking period. Staff recommends that the Company submit an annual report showing the number of participants, discounts given, administrative fees and carrying costs and collections received from non-participants, and its calculation for establishing the new annual surcharge.²⁸

The Company accepts all of Staff's recommendations for the low income tariff.²⁹

A surcharge will collect the costs of the low income tariff, which include the 15 percent discount and direct costs that the Company incurs, from residential users who are not participating in the low income program. Based on the rates established herein, a 15 percent discount is equal to \$8.26 a month. Assuming that the maximum number of 400 residents participate, it is estimated non-participating residents would see a monthly surcharge of approximately \$3.92 (not including allowed direct costs and carrying charges).

The proposed low income tariff is based on a tariff approved for Chaparral City Water Co.³⁰ The record indicates that Coronado has a large proportion of customers who are retired or otherwise on a fixed income. A low income tariff should help qualifying customers with their utility bills, and also assist the Company lower its Bad Debt Expense. The proposed 15 percent discount and cap on the number of participants is a fair balance between assisting low income ratepayers and the extra burden that will be borne by non-participating ratepayers. Consequently, we approve the proposed low income tariff that the Company submitted on June 3, 2010, and authorize the Company to recover the approved costs of the low income tariff from non-participating customers by means of a surcharge. Thirteen months after the effective date of the rates approved herein, the Company shall file its first annual report detailing the program for the first twelve months as described above, and

²⁸ Ex S-2 at 22-23.

²⁹ Tr at 80-84.

³⁰ Decision No. 71308 (October 21, 2009).

1 indicating its calculation of the new surcharge. Unless Staff files an objection or notice that it
 2 requires additional time to review the Company's filing, the surcharge shall become effective the first
 3 of the month after the Company files its report, but not sooner than thirty days after the Company
 4 files its request for a new surcharge.

5 **C. Disconnection Tariff**

6 The Company is also seeking a tariff for disconnection for non-payment.³¹ Under this tariff,
 7 Coronado could charge a delinquent customer who was disconnected for non-payment, but who seeks
 8 to reconnect at the same location, a reconnection fee in an amount equal to the actual costs incurred
 9 to disconnect the sewer line, plus \$35. The Company asserts that it has an unusually high number of
 10 non-paying customers and needs the Reconnection (Delinquent) tariff to ensure that customers
 11 understand that there is a consequence and price associated with not paying, and so that the costs of
 12 disconnection are borne by the cost-causer rather than by all customers as part of the cost of service.³²

13 Initially, Staff recommended approving the disconnection tariff only after the Company
 14 demonstrated that it tried to negotiate a water service termination agreement with the area's water
 15 provider—Arizona Water Company. Although Staff accepts that ultimately a sewer disconnection
 16 may be appropriate in some instances, Staff believes that those instances are rare, and concludes that
 17 an alternate method to facilitate payments might be more effective and less costly to all parties
 18 involved and should be pursued prior to establishing a sewer disconnection fee.³³ Staff recommended
 19 that the Commission order Coronado to work with Arizona Water Company to develop a water
 20 termination agreement instead of authorizing a sewer disconnection fee. Staff realized that A.A.C.
 21 R14-2-410(A)(3) prohibits water utilities from discontinuing service to customers for failure to pay
 22 bills for a different utility service and that Arizona Water Company would have to file an application
 23 with the Commission to permit a waiver or variance from the rules in order to implement Staff's
 24 suggested water services termination agreement.

25 A water service termination agreement would allow Arizona Water to cut off water to the
 26 premises if the customer is delinquent with its sewer bill. The public benefit of such an arrangement

27 ³¹ Ex A-9.

28 ³² See Issues Matrix.

³³ Ex S-2 at 16.

1 is tremendous, as it avoids the necessity of disconnecting the sewer, which is a very intrusive and
2 costly process. To disconnect a sewer line, the line must be dug up and capped at both ends.³⁴ The
3 Company estimates the cost of capping a lateral line at \$8,000.³⁵ On the other hand, it is a relatively
4 simple matter to disconnect water service. Staff's recommended water service termination agreement
5 would allow Arizona Water to recover its lost revenue.³⁶

6 At the hearing, Coronado introduced a letter sent to Arizona Water Company inquiring into
7 Arizona Water's willingness to enter into a water service termination agreement.³⁷ The Company
8 later docketed a letter from Arizona Water expressing Arizona Water's lack of desire to negotiate a
9 water service agreement.³⁸

10 Because of the potentially severe economic and health and safety consequences of sewer
11 disconnection, Staff continues to believe that a water termination agreement between Arizona Water
12 Company and Coronado would be in the best interest of Coronado, its customers and the community.
13 Staff recognizes that Arizona Water was not a party to this proceeding and cannot be ordered in this
14 docket to enter into such agreement. Staff continues to believe, that despite Arizona Water's refusal
15 to enter into a water termination agreement, the public interest strongly weighs in favor of a water
16 service termination agreement. However, in its Closing Brief, Staff states that it is satisfied that
17 Coronado made sufficient effort to engage Arizona Water on this issue and Staff recommends that the
18 Company's proposed reconnection tariff be approved without further conditions.³⁹ Staff recommends,
19 however, that language be included in this Order that allows later amendment of the reconnection
20 tariff should a water service termination agreement be entered into after the conclusion of the rate
21 case.

22 A water termination agreement would give the Company another and probably more effective
23 tool in collecting delinquent accounts because terminating water service to the premises is vastly less
24 costly than digging up a sewer line. All customers pay for a high delinquency rate through a high

25
26 ³⁴ Tr. at 144.

27 ³⁵ Tr. at 71.

28 ³⁶ Staff Closing Brief at 6.

³⁷ Ex. A-8, Letter to Bill Garfield (Arizona Water Company).

³⁸ Late Filed exhibit filed may 27, 2010.

³⁹ Staff Closing Brief at 5.

1 Bad Debt Expense embedded in rates. It is disappointing, but understandable given the existing
 2 rules, that Arizona Water has declined to negotiate a water termination agreement with Coronado.
 3 We recognize the rules do not allow the disconnection of one service because another service is
 4 delinquent, but believe that it is in the public interest to explore more effective ways than physical
 5 disconnection to allow sewer providers to collect delinquent bills. The issue is larger than this single
 6 rate case. We direct Staff to study the issue and make further recommendation to the Commission, if
 7 Staff believes that revising the rules or other Commission action would be in the public interest to
 8 address this situation.

9 Although referred throughout this proceeding as a disconnection tariff for a delinquent bill,
 10 the proposed charge is actually for reconnection after a delinquency. The Commission's rules allow
 11 sewer companies to discontinue service for delinquent payment.⁴⁰ The proposed tariff would allow
 12 the Company to charge the customer for the cost of the disconnection if and when the customer
 13 wanted to re-apply for service. Disconnecting sewer lines is a draconian response and can lead to a
 14 number of negative health and safety consequences and could negatively affect property values for
 15 the entire community. Coronado has sworn to abide by all applicable rules and regulations for
 16 disconnecting a sewer line,⁴¹ and we note that Gold Canyon Sewer has a similar tariff.⁴² It is
 17 reasonable, however, that if the Company incurs the cost of physical disconnection, it should be able
 18 to recover those costs from the delinquent customer. Thus, we approve the proposed Reconnection
 19 (Delinquent) charge.

20 The parties agree on all service charges.

21 Based on the foregoing, we approve the following Service Charges:

Other Service Charges:	
Establishment of service	\$25.00
Reconnection (Delinquent) (a)	\$35.00

27 ⁴⁰ R14-2-609.

28 ⁴¹ Tr. at 101-02.

⁴² Ex A-10.

1	Deposit	*
2	Deposit Interest	**
3	Re-establishment of service	***
4	NSF Check	\$25.00
5	Late Payment Penalty	1.5% per month
6	Deferred Payment	1.5% per month
7	Main Extension and additional facilities agreements (b)	Cost
8	Service calls (after hours, per hour)	\$40.00

9

10 * Per Commission Rule A.A.C. R-14-2-603(B). Residential: Min deposit two times average monthly bill; Non-residential – 2 and ½ times the estimated maximum bill

11 ** Per Commission Rule A.A.C. R14-2-603(B)

12 *** Per Commission Rules A.A.C. R14-2-603(D) – Months off the system times the monthly minimum.

13 (a) Plus cost of physical disconnection and reconnection including parts, labor overhead, and all applicable taxes, including income tax.

14 (b) Cost includes parts, labor overhead, and all applicable taxes, including income taxes. In addition to the collection of regular rates, the utility will collect from its customers a Proportionate share of any privilege, sales, use and franchise tax. Per Commission Rules R14-2-608(D)(5).

15

16 Terminating water service or sewer service to a premise is a serious decision, that should, and

17 is only rarely utilized. We agree with Staff that if at a future date, the parties are able to negotiate and

18 seek Commission approval a waiver of the rules for a water service termination agreement, the tariff

19 we approve herein should be able to be modified without the Company having to file another rate

20 case.

21 Because of the serious consequences of disconnecting a sewer line and the connection

22 between delinquent accounts and potential disconnections and the large bad debt expense being

23 experienced by this Company, the Commission wants to be kept abreast of the situation, and directs

24 the Company to file an annual report when it files its report on the low income tariff, showing the

25 number of disconnections for the previous twelve month period, the cost of the disconnections and

26 the Company's Bad Debt Expense for the period.

27 * * * * *

FINDINGS OF FACT

1
2 1. On June 3, 2009, Coronado filed an application for a rate increase based on a twelve
3 month test year ending December 31, 2008.

4 2. On July 6, 2009, Staff notified the Company that its application did not meet the
5 sufficiency requirements outlined in Arizona Administrative Code ("A.A.C.") R14-2-103.

6 3. On July 8, 2009, Coronado supplemented its application.

7 4. On July 16, 2009, Staff filed a Letter of Sufficiency indicating that Coronado's
8 application had met the sufficiency requirements of A.A.C. R14-2-103. Staff classified the Company
9 as a Class B utility.

10 5. By Procedural Order dated July 24, 2009, the matter was set for hearing to
11 commence on March 23, 2010.

12 6. On July 20, 2009, the Residential Utility Consumer Office, ("RUCO"), an entity
13 created by statute to represent residential utility consumers in matters before the Commission, filed
14 an Application to Intervene. The Application was granted August 31, 2009.

15 7. On September 1, 2009, Coronado mailed notice of the hearing to its customers, and on
16 September 16, 2009, had the notice published in the *San Manuel Miner*.

17 8. On October 29, 2009, RUCO filed a Withdrawal of Application to Intervene. No
18 party objected to RUCO's withdrawal. The request to withdraw was granted on November 6, 2009.

19 9. On January 6, 2010, Staff filed a Motion for Revised Procedural Schedule.

20 10. By Procedural Order Dated January 13, 2010, the procedural schedule was modified,
21 and the hearing continued until May 5, 2010. The Procedural Order provided that the original
22 hearing date would be utilized for public comments.

23 11. On February 12, 2010, Staff filed Direct Testimony.

24 12. On March 22, 2010, Coronado filed Rebuttal Testimony and a Request for Summary
25 Adjudication Regarding Staff Recommendation Concerning Disconnection for Non-Payment.

26 13. On March 23, 2010, a Public Comment meeting convened at the Commission's offices
27 in Tucson, Arizona. At that time, nine Coronado customers appeared to provide public comment.

28 14. On March 24, 2010, Staff requested additional time, until April 9, 2010, to respond to

1 Coronado's Motion for Summary Adjudication.

2 15. On April 9, 2010, Staff filed a Motion for Extension of Time to File Response to
3 Request for Summary Adjudication. Coronado agreed to the requested extension.

4 16. By Procedural Order dated April 13, 2010, Staff's request for additional time was
5 granted.

6 17. On April 16, 2010, Staff filed its Surrebuttal Testimony and a "Response and Motion
7 to Deny Request for Summary Adjudication."

8 18. On April 23, 2010, Coronado filed a Reply to Staff's Response.

9 19. On April 28, 2010, Barbara Stuart, a Coronado customer, requested intervention.

10 20. On May 3, 2010, Coronado filed its Rejoinder Testimony.

11 21. The hearing convened on May 5, 2010, before a duly authorized Administrative Law
12 Judge. At the commencement of the hearing, the Company's Motion for Summary Disposition of the
13 Disconnection Tariff was denied on the grounds that factual support was necessary to determine
14 whether the tariff was in the public interest. In addition, the request to intervene was denied because
15 it was filed long past the deadline for intervention and the issues sought to be raised could be
16 addressed as public comment.⁴³ Six Coronado customers appeared at the commencement of the
17 hearing to provide public comment.

18 22. In addition to the customers appearing to provide public comment in person, the
19 Commission received a significant number of written, email and telephonic comments.

20 23. On May 17, 2010, Staff and Coronado filed their Final Schedules.

21 24. On May 27, 2010, Coronado filed a letter from Arizona Water Company responding to
22 the Company's request for assistance with sewer customer delinquencies.

23 25. On June 3, 2010, the parties filed their Closing Briefs, and Staff filed an exhibit
24 containing its Final Rates.

25 26. The Company's existing rates were approved in Decision No. 68608 which granted
26 Coronado a CC&N. This is the Company's first rate case since receiving its CC&N.

27

28 ⁴³ Tr. at 7-14. in the Procedural Order dated July 24, 2009, the intervention deadline was set as December 31, 2009.

27. At the end of the test year, Coronado had approximately 1240 residential customers, 60 commercial customers, 4 schools and one mobile home park.

28. Based on the record herein, Coronado's FVRB is determined to be \$3,531,742.

29. In the test year, Coronado's adjusted test year revenues were \$868,903; after adjusted test year expenses of \$715,065, Coronado experienced adjusted test year operating income of \$153,839, a 4.35 percent rate of return on FVRB of \$3,531,742.

30. A weighted cost of capital of 7.25 percent is reasonable.

31. Based on the findings and discussion herein, Coronado is entitled to a revenue increase of \$152,786, or 17.6 percent, for a total revenue requirement of \$1,021,689.

32. The rates and charges approved herein are reasonable and should be adopted.

33. The proposed low income tariff, attached hereto as Exhibit A, is reasonable and should be adopted for the residential class.

34. To recover the appropriate costs of the low income tariff, Coronado should be authorized to implement a surcharge on non-participating residential users.

35. Coronado should file an annual report detailing the costs and recovery under the ARW tariff as discussed herein and in Staff's testimony, and shall indicate its calculation to re-set its surcharge.

36. Coronado's proposed Reconnection (Delinquent) tariff is reasonable and should be adopted, and if Coronado is able to negotiate a water service termination agreement with the water provider, after Commission approval of such agreement, the tariff may be modified without Coronado having to file another rate case.

37. Coronado should file an annual report when it files its report on the low income tariff, showing the number of disconnections for the previous twelve month period, the cost of the disconnections, and its Bad Debt Expense for the period.

38. Coronado is in compliance with ADEQ regulations and there are no Commission compliance issues.

CONCLUSIONS OF LAW

1. Coronado is a public service corporation within the meaning of Article XV of the

1 Arizona Constitution and A.R.S. §§40-250, 40-251, 40-367 and 40-361.

2 2. The Commission has jurisdiction over Coronado and the subject matter contained in
3 the Company's rate application.

4 3. Notice of the proceeding was provided in conformance with law.

5 4. Coronado's FVRB is deemed to be \$ 3,531,742.

6 5. The rates, charges and conditions of service established herein are just and reasonable
7 and in the public interest.

8 ORDER

9 IT IS THEREFORE ORDERED that Coronado Utilities, Inc. is hereby authorized and
10 directed to file with the Commission, on or before October 29, 2010, revised schedules of rates and
11 charges consistent with the discussion herein, and as set forth below:

Monthly Minimum Charge For:	
Residential	\$55.07
Commercial	\$8.93
Mobile Home Park – monthly per occupied space year-round	\$31.95
School	\$9.00
Volumetric Rates (per 1,000 gallons)	
Commercial	\$11.85
School	\$3.78
Effluent (per 1,000 gallons)	\$0.2018

Other Service Charges:	
Establishment of service	\$25.00
Reconnection (Delinquent) (a)	\$35.00
Deposit	*
Deposit Interest	**

Re-establishment of service	***
NSF Check	\$25.00
Late Payment Penalty	1.5% per month
Deferred Payment	1.5% per month
Main Extension and additional facilities agreements (b)	Cost
Service calls (after hours, per hour)	\$40.00

* Per Commission Rule A.A.C. R-14-2-603(B). Residential: Min deposit two times average monthly bill; Non-residential – 2 and ½ times the estimated maximum bill

** Per Commission Rule A.A.C. R14-2-603(B)

*** Per Commission Rules A.A.C. R14-2-603(D) – Months off the system times the monthly minimum.

(a) Plus cost of physical disconnection and reconnection including parts, labor overhead, and all applicable taxes, including income tax.

(b) Cost includes parts, labor overhead, and all applicable taxes, including income taxes. In addition to the collection of regular rates, the utility will collect from its customers a Proportionate share of any privilege, sales, use and franchise tax. Per Commission Rules R14-2-608(D)(5).

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service on and after November 1, 2010.

IT IS FURTHER ORDERED that the Alternative Rates for Wastewater Tariff (Low Income Tariff) attached hereto as Exhibit A, is approved.

IT IS FURTHER ORDERED that Coronado Utilities, Inc. is authorized to recover the costs of the Alternative Rates for Wastewater Tariff from non-participating residential customers by means of a monthly surcharge.

IT IS FURTHER ORDERED that Coronado Utilities, Inc. shall track the costs of the Alternative Rates for Wastewater Tariff in a balancing account and shall file an annual report and request to re-set the surcharge, the first report and request for surcharge to be filed thirteen months after the effective date of the rates approved herein, and subsequent reports to be filed every twelve months thereafter. The surcharge request shall be effective on the first of the month following the month in which the Company files its report, but no earlier than 30 days after filing, and shall become

effective without further action of the Commission unless Staff files an objection or request for additional time to analyze the proposed charges and surcharge within thirty days of the filing.

IT IS FURTHER ORDERED that Coronado Utilities, Inc. shall file an annual report when it files its report on the low income tariff, showing the number of disconnections for the previous twelve month period, the cost of the disconnections and its Bad Debt Expense for the period.

IT IS FURTHER ORDERED that Coronado Utilities, Inc. shall notify its customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing, or by separate mailing, in a form acceptable to Staff. The notice shall include information about, and directions for, applying for the Alternative Rates for Wastewater Tariff.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: CORONADO UTILITIES, INC.

2 DOCKET NO.: SW-04305A-09-0291

3

4 Mr. Jay Shapiro
5 FENNEMORE CRAIG, PC
6 3003 North Central Avenue
7 Phoenix, AZ 85012
8 Attorneys for Coronado Utilities, Inc.

9 Jason Williamson
10 President
11 CORONADO UTILITIES, INC.
12 6825 East Tennessee Avenue
13 Denver, CO 80224

14 Janice Alward, Chief Counsel
15 Legal Division
16 ARIZONA CORPORATION COMMISSION
17 1200 West Washington Street
18 Phoenix, AZ 85007

19 Steve Olea, Director
20 Utilities Division
21 ARIZONA CORPORATION COMMISSION
22 1200 West Washington Street
23 Phoenix, AZ 85007

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EXHIBIT A

CORONADO UTILITIES, INC.

Sheet No. -

DOCKET NO. _____

Cancelling Sheet No. _____

Applies to all WASTEWATER service areas

ALTERNATE RATES FOR WASTEWATER (ARW)
DOMESTIC SERVICE - SINGLE FAMILY ACCOMMODATION**APPLICABILITY**

Applicable to residential wastewater service for domestic use rendered to low-income households where the customer meets all the program qualifications and special conditions of this rate schedule.

TERRITORY

Within all customer service areas served by the Company.

RATES

Fifteen percent (15%) discount applied to the regular filed tariff.

PROGRAM QUALIFICATIONS

1. The Coronado Utilities bill must be in your name and the address must be your primary residence or you must be a tenant receiving sewer service for which you are responsible.
2. You may not be claimed as a dependent on another person's tax return.
3. You must reapply each time you move residences.
4. You must renew your application every two (2) years, or sooner, if requested.
5. You must recertify each year by submitting a declaration attesting to your continuing eligibility.
6. You must notify Coronado Utilities within thirty (30) days if you become ineligible for ARW.
7. Your total gross annual income of all persons living in your household cannot exceed the income levels below:

Issued: _____

ISSUED BY:

Effective: _____

Jason Williamson, President
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

DECISION NO. _____

CORONADO UTILITIES, INC.

Sheet No. -

DOCKET NO. _____

Cancelling Sheet No. _____

Effective: _____

<u>No. of Person in Household</u>	<u>Total Gross Annual Income</u>
1	\$16,245
2	21,855
3	27,465
4	33,075
5	38,685
6	44,295

For each additional person residing in the household, add \$5,610

For the purpose of the program the "gross household income" means all money and non cash benefits, available for living expenses, from all sources, both taxable and non taxable, before deductions for all people who live in your home. This includes, but is not limited to:

Wages or salaries	Social Security, SSI, SSP	Rental or royalty income
Interest or dividends from:	Scholarships, grants, or other aid	Profit from self-employment
Savings account, stocks or bonds	used for living expenses	(IRS form Schedule C, Line 29)
Unemployment benefits	Disability payments	Worker's Compensation
TANF (AFDC)	Food Stamps	Child Support
Pensions	Insurance settlements	Spousal Support
Gifts		

Issued: _____

ISSUED BY:

Effective : _____

Jason Williamson, President
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

DECISION NO. _____

CORONADO UTILITIES, INC.

Sheet No. -

DOCKET NO. _____

Cancelling Sheet No. _____

SPECIAL CONDITIONS

1. Application and Eligibility Declaration: An Application and eligibility declaration on a form authorized by the Commission is required for each request for service under this schedule. Renewal of a customer's eligibility declaration will be required, at least, every two (2) years.
2. Recertification: A customer enrolled in the ARW program must, each year, recertify by submitting a declaration attesting to continuing eligibility.
3. Commencement of Rate: Eligible customers shall be billed on this schedule commencing with the next regularly scheduled billing period that follows receipt of application by the Utility.
4. Verification: Information provided by the applicant is subject to verification by the Utility. Refusal or failure of a customer to provide documentation of eligibility acceptable to the Utility, upon request by the Utility, shall result in removal from this rate schedule.
5. Notice from Customer: It is the customer's responsibility to notify the Utility if there is a change of eligibility status.
6. Rebilling: Customers may be re-billed for periods of ineligibility under the applicable rate schedule.
7. Participation Cap: The ARW program is limited to 400 customers.

Issued: _____

Effective : _____

ISSUED BY:

Jason Williamson, President
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

DECISION NO. _____

CORONADO UTILITIES, INC.

Sheet No. -

DOCKET NO. _____

Cancelling Sheet No. _____

CORONADO UTILITIES, INC.
APPLICATION AND DECLARATION FOR
ALTERNATE RATES FOR WASTEWATER PROGRAM

Your Name (Please Print) _____

Coronado Utilities, Inc. Account No.

Service Address _____

Mailing Address _____
(if different from above address)

Telephone No. (home) _____ (work) _____

Number of people living in your household: Adults + Children = Total

Total Gross Annual Income of Household _____

Please attach one of the following documents as proof of income for eligibility verification:

- copy of tax return from prior year
- W2 form from prior year
- copy of welfare/foodstamp cards

By signing below, I certify under penalty of perjury that this information is true and correct under the laws of the State of Arizona. I will provide proof of income and I will notify Coronado Utilities, Inc. of any changes that affect my eligibility. I understand that if I receive the discount without meeting the qualifications for it, I may be required to pay back the discount I received.

Customer Signature _____

Date _____

INSTRUCTIONS: An Application and Declaration for Alternate Rates for Water and Wastewater Program must be submitted every two (2) years. A Declaration of Eligibility must be submitted annually.

Issued: _____

Effective: _____

ISSUED BY:

Jason Williamson, President
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

DECISION NO. _____

CORONADO UTILITIES, INC.

Sheet No. -

DOCKET NO. _____

Cancelling Sheet No. _____

Mail completed application to:

FOR CORONADO UTILITIES, INC. USE ONLY

Date received _____ Date Verified _____ Verified By _____

Issued: _____

ISSUED BY:

Effective : _____

Jason Williamson, President
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

DECISION NO. _____

CORONADO UTILITIES, INC.

Sheet No. -

DOCKET NO. _____

Cancelling Sheet No. _____

Mail completed declaration to:

CORONADO UTILITIES, INC. USE ONLY

Date received _____ Date Verified _____ Verified By _____

Issued: _____

ISSUED BY:

Effective : _____

Jason Williamson, President
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

DECISION NO. _____